Market Commentary

Value Equity Strategies

Second Quarter 2025

Second Quarter Sentiment Shift

The second quarter was quite the contrast to the first as investor sentiment grew wildly optimistic throughout the quarter after a rather dour start to the year. We entered the year with a lot of anxiety surrounding the economic agenda of the new administration, whose focus was primarily on restructuring the global order in an attempt to stem the widening trade imbalances that have benefited capital holders at the expense of labor. The administration's preferred policy approach, which had been widely communicated, was through tariffs; in early April, they released the initial tariff framework. It was more abrupt and disruptive than investors expected, and the markets responded accordingly, pushing the broad equity markets into a sharp correction during the first part of April. It was not until signals (tweets, to be precise) reflected a softer stance in tariff negotiations that the markets turned, and a strong rally ensued through quarter-end.

Market Rotation

In light of these developments, it has truly been a tale of two markets. The broad markets sold off through early April, with the S&P 500 Index down roughly 15% by April 8, before staging a ~25% rally, resulting in a year-to-date return of 6.0%. The underlying drivers of performance were also quite different, leading to a rotation in leadership. During the first part of the year, the market was led by defensive areas such as Consumer Staples, Health Care, and Utilities as well as Energy. These sectors are weighted much heavier in the Value indexes and provide higher dividend yields, which caused value to outperform growth. The rotation that occurred in the second quarter spread across indexes, styles, sectors, factors, and the Magnificent 7 (see Figure 1). The graph illustrates investors' rapid shift to risk, with momentum and higher beta (risk) factors leading the market in the second quarter.

Figure 1

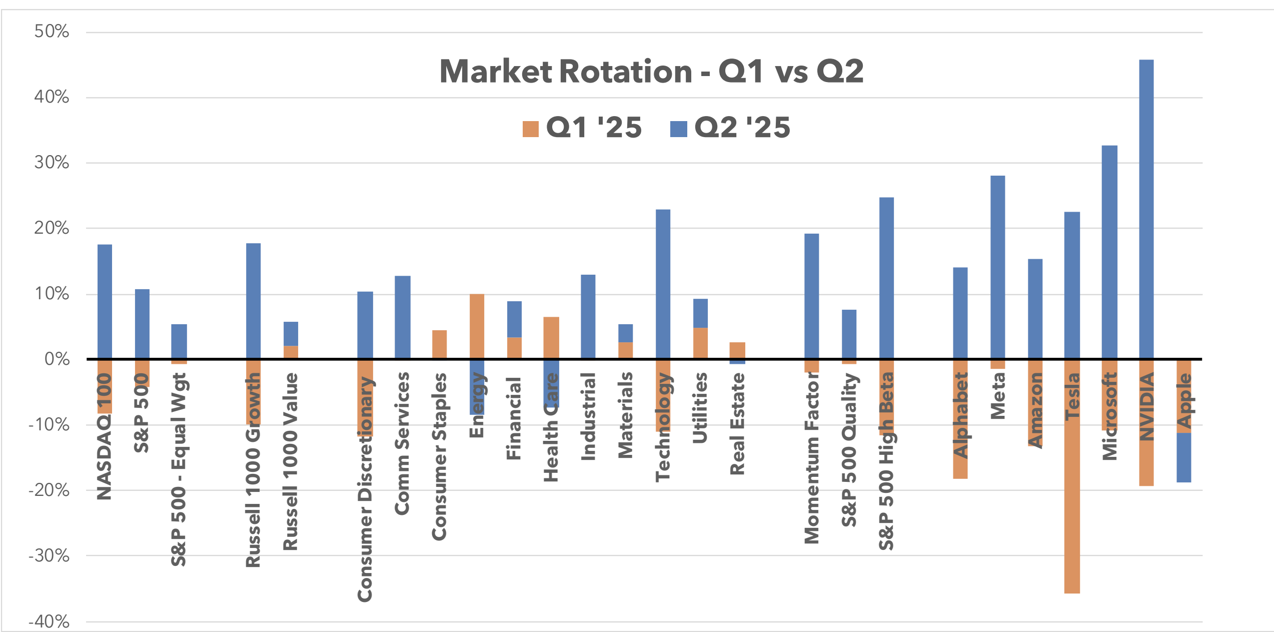
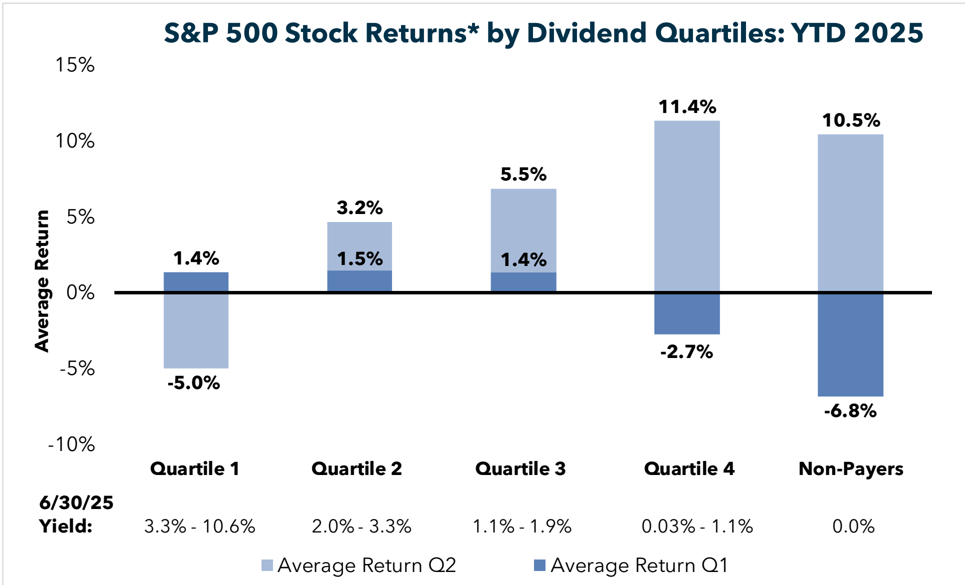


Figure 1: Sources: NASDAQ-100 Index (NDX), SPDR S&P 500 ETF Trust (SPY), Invesco S&P 500 Equal Weight ETF (RSP), iShares Russell 1000 Growth ETF (IWF), iShares Russell 1000 Value ETF (IWD), Consumer Discretionary Select Sector SPDR Fund (XLY), Communication Services Select Sector SPDR Fund (XLC), Consumer Staples Select Sector SPDR Fund (XLP), Energy Select Sector SPDR Fund (XLE), Financial Select Sector SPDR Fund (XLF), Health Care Select Sector SPDR Fund (XLV), Industrial Select Sector SPDR Fund (XLI), Materials Select Sector SPDR Fund (XLB), Technology Select Sector SPDR Fund (XLK), Utilities Select Sector SPDR Fund (XLU), Vanguard Real Estate ETF (VNQ), iShares MSCI USA Momentum Factor ETF (MTUM), Invesco S&P 500 Quality ETF (SPHQ), Invesco S&P 500 High Beta ETF (SPHB), Alphabet Inc. Class A (GOOGL), Meta Platforms Inc. Class A (META), Amazon.com, Inc. (AMZN), Tesla, Inc. (TSLA), Microsoft Corporation (MSFT), NVIDIA Corporation (NVDA), and Apple Inc. (AAPL)

Impact on Dividend-Paying Stocks

The rotation toward momentum/risk in the second quarter was also evident for dividend investors. The non-payers and low-dividend payers were down in the first quarter, while businesses with dividend yields higher than 1.1% posted positive returns on average. Conversely, in the second quarter, the non- and low-dividend payers posted low double-digit returns, while the higher yield quartiles lagged, with the highest-paying quartile posting a loss. Figure 2 illustrates the quarter-over-quarter performance differentials by yield quartile.

Figure 2



*Actual Historical Constituents. *Returns through 6/30/2025.*
(Sources: Confluence, Ned Davis Research)

This also marks the third rotation since last summer. If you recall, the mega-cap, tech-oriented Magnificent 7 ceded leadership during the summer of 2024, briefly retaking the role later in 2024. This back-and-forth is common after extended periods of relative outperformance as investors are often hesitant to abandon strategies that have been working. It is also a reflection of the underlying economic backdrop that fueled the rise in populism and the current administration's efforts to address these conditions, which will continue to impact the markets.

We examined this influence on the markets in our recent *Value Equity Insights* publication, "Investing Where the Puck is Going: The Renewed Case for Active and Value."

Market Outlook

Looking forward, we anticipate heightened volatility as the administration is attempting to pull levers that have not been used in this manner for many generations and are likely to produce varying responses and secondary effects. Fortunately, the economy remains on decent footing and the recently passed budget reconciliation law provides clarity for businesses and taxpayers. This bodes well for the outlook on the economy and earnings. As always, we believe long-term investors should view volatility as an opportunity — a principle central to our investment philosophy.

Confluence Value Equities Investment Committee

Mark Keller, CFA	Tore Stole	Tom Dugan, CFA	Dustin Hausladen	Brett Mawhiney, CFA	John Koenig, CFA
Daniel Winter, CFA	John Wobbe	Joe Hanzlik	Blair Brumley, CFA	Ben Kim, CFA	

20 Allen Ave., Ste. 300, St. Louis, MO 63119 www.confluenceinvestment.com

All Cap Value

Value Equity Strategies

Second Quarter 2025

All Cap Value is focused on companies that range in market capitalization to create a diversified portfolio of businesses with capital appreciation potential. These companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that possess substantial competitive advantages and are trading at discounts to our estimate of intrinsic value. The strategy is appropriate for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

Strategy Commentary

With the S&P 500 Index up 6.2% in the first half of 2025, one could conclude that it's been a fairly typical six months. However, for those of us that lived through it, we know differently as we have dealt with issues such as a global trade war, an onslaught of White House policy changes, and the US bombing of Iran's nuclear facilities, to name a few. This brought a lot of unpredictable market volatility and is a good reminder that there is a big difference between reading about history and living through it — especially as a patient, long-term investor.

As a result, the relative year-to-date performance reported through June looks very different than it did during the April tariff selloff or even just a month prior. Year-to-date, the S&P 500, Russell 3000 Value, and the Confluence All Cap Value strategy have returned 6.2%, 5.5%, and 5.7% (gross of fees), respectively, but just a month ago, those figures through the end of May were 1.1%, 2.0%, and 2.8%, respectively. For the second quarter, the S&P 500 was up 10.9%, outperforming the Russell 3000 Value, up 3.8%, and All Cap Value, up 6.5% (gross of fees). [*The strategy's net-of-fees returns for the same periods were 4.1% YTD and 5.7% QTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

So, what changed in June? The market moved decisively back toward what has led for the past five years — cyclical, mega-cap, growth stocks — and away from defensive, value stocks. But the reasons behind this shift are not entirely clear, given the high level of economic uncertainty from tariffs and interest rates along with weak consumer and business confidence. As investors favored the cyclical, mega-cap, growth names, the more defensive and value-focused companies in the All Cap Value portfolio lagged behind. As a result, much of the year-to-date underperformance versus the S&P 500 can be attributed to this market rotation we saw in the second quarter.

In the All Cap Value portfolio, the top contributors to performance year-to-date were Oracle Corp. (ORCL), ERP software and cloud services; Dollar Tree (DLTR), low-price retailer that is executing and rebounding from last year; and Carrier Global Corp. (CARR), HVAC manufacturer purchased in April. The weakest performers this year were Dun & Bradstreet (DNB), which was sold in April; Thermo Fisher Scientific (TMO), major player in instruments and consumables for healthcare research; and Diageo (DEO), premium spirits and beer producer.

During the tariff-driven selloff in early April, we had a chance to purchase Carrier Global, a company we have long admired, at a very attractive valuation. We also sold Dun & Bradstreet, which is being acquired with an expected close date sometime in Q3 2025.

Carrier Global, which was spun off from United Technologies in 2020, has executed an impressive business transformation over the past five years. Previously a somewhat neglected asset within a large industrial conglomerate, Carrier operated in a structurally attractive but underprioritized segment — the oligopolistic HVAC/R industry — with limited strategic focus and investment. Since becoming an independent entity, the company has significantly improved its operations and repositioned its business model. The company has streamlined its portfolio by divesting non-core assets and making strategic acquisitions to become a pure-play HVAC/R company. CEO Dave Gitlin, who previously led UTX's high-performing aerospace division, has been a key driver of this transformation. Under his leadership, Carrier has instilled greater operational discipline, invested in growth initiatives, optimized costs, and sharpened its strategic focus. These actions have improved the company's organic growth potential, expanded margins, and enhanced return on capital.

Carrier operates in an attractive end market, supported by long-term secular tailwinds. HVAC demand is driven by recurring replacement cycles, regulatory pressure for energy efficiency and refrigerant compliance, and global decarbonization efforts. The commercial HVAC market is particularly favorable, given its concentrated structure and the complexity of large-scale systems. Carrier's technical capabilities and service expertise give it a clear edge in this space. The company also benefits from a large installed base, which generates recurring, high-margin aftermarket and service revenues.

See GIPS Report on pages 3-4.

Strategy Commentary continued…

Carrier's stock came under pressure in April due to tariff concerns and broader macroeconomic uncertainty. We took advantage of this dislocation to initiate a position at what we believe is an attractive valuation. While near-term volatility may persist, its multi-transformation has significantly improved the quality and resilience of the business, and it is well-positioned to deliver long-term growth.

In early June, we also had a chance to purchase Brown-Forman at a significant discount to intrinsic value. Brown-Forman is a leader in spirits production and is one of the longest-tenured North American whiskey distillers. The company's flagship brand, Jack Daniel's, holds a top-10 spot in global whiskey sales and is ranked as the most valuable spirits brand worldwide by Interbrand. Brown-Forman's decades of marketing and brand building have created a very loyal customer base and significant cultural relevance as Jack Daniel's is routinely referenced in pop music and film and has become a symbol of rugged American independence. This brand equity has extended beyond the US, with Jack Daniel's comfortably holding its place as the most exported US spirits brand.

The company's deep history in American whiskey and its understanding of consumer tastes have also helped it capitalize on budding trends. Brown-Forman virtually invented the super-premium bourbon category with its launch of Woodford Reserve in 1996, years ahead of industry competitors. The company has also successfully executed brand extensions, including a ready-to-drink "Jack and Coke" product manufactured directly in partnership with Coca-Cola.

The Brown family has maintained control of the company since its founding 154 years ago. As a result, Brown-Forman is unique among publicly traded consumer goods companies in its conservative mindset and focus on long-term sustainable growth — management is more likely to speak of the business in terms of decades rather than quarters. The company has weathered Prohibition, two World Wars, and multiple economic cycles while growing its brands and delivering consistent returns to shareholders. Brown-Forman has paid quarterly dividends for 80 consecutive years and has increased its regular dividend each year for the past 40 years.

Brown-Forman has been negatively impacted by weak consumer trends and the hangover impact of above-trend spending habits during COVID, which left consumers with a surplus of spirits on their shelves. As a result, the company's stock has experienced a 36% decline over the past year and is around 65% off its COVID-era highs. We believe the market's short-term focus created an attractive entry point for the stock, now trading at its lowest valuation since the 2008 financial crisis. The company's strong brand equity, conservative management, significant competitive moats, and unwavering shareholder focus should reward investors who are able to take a long-term view.

Outlook

It took the S&P 500 only 55 days to rebound from the selloff in April, beating the previous record for the fastest recovery (following a drawdown of at least 15%) set in 1998 during the dot-com speculative mania (*source: Strategas*). The swift turnaround indicates that the market is becoming increasingly confident that a recession can be avoided.

Since the 2008 financial crisis, US monetary and fiscal policy has doused any potential recession fires, but government debt and interest rates are piling up. It is especially difficult to know where the fed funds rate is headed from here, but globalization, record debt issuance, and persistent inflation will likely push long-term interest rates higher, not lower.

In such an environment, defensive, value-oriented stocks are well positioned to outperform, aligning with our investment philosophy and approach. As always, we are long-term investors, so we will continue to focus on buying great companies with capable management teams at a discount to our estimate of intrinsic value.

Contribution[1]

The top contributors and detractors for the portfolio in Q2 2025 and the full year are shown in the following tables:

(QTD as of 6/30/2025)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Oracle Corp.	3.43	1.69
Dollar Tree Inc.	3.42	1.00
Carrier Global Corp.	2.96	0.90
Walt Disney Co.	2.44	0.60
Gates Industrial Corp. plc	2.12	0.50
Bottom 5		
Progressive Corp.	2.90	(0.17)
Lowe's Co. Inc.	4.04	(0.20)
Brown & Brown Inc.	2.69	(0.35)
Berkshire Hathaway Inc. (Class B)	3.97	(0.36)
Thermo Fisher Scientific Inc.	2.25	(0.53)

(YTD as of 6/30/2025)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Oracle Corp.	3.43	1.12
Dollar Tree Inc.	3.12	1.01
Carrier Global Corp.	1.49	0.90
W. R. Berkley Corp.	3.05	0.74
Progressive Corp.	3.60	0.68
Bottom 5		
Lowe's Co. Inc.	4.21	(0.42)
Charles River Laboratories International	1.81	(0.44)
Diageo plc	2.48	(0.55)
Thermo Fisher Scientific Inc.	2.57	(0.64)
Dun & Bradstreet Holdings Inc.	*Sold*	(0.67)

Performance Composite Returns[2] (For Periods Ending June 30, 2025)

	Since Inception**	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
All Cap Value *Pure Gross-of-Fees*[3]	10.0%	10.3%	13.4%	11.3%	13.0%	14.2%	14.4%	5.7%	6.5%
Max Net-of-Fees[4]	6.7%	7.0%	10.0%	8.0%	9.7%	10.8%	11.0%	4.1%	5.7%
S&P 500	10.4%	10.7%	14.9%	13.6%	16.6%	19.7%	15.1%	6.2%	10.9%
Russell 3000 Value	7.9%	8.0%	11.4%	9.0%	13.8%	12.4%	13.3%	5.5%	3.8%

Calendar Year	Pure Gross-of-Fees[3]	Max Net-of-Fees[4]	S&P 500	R3000 Value	Difference (Gross-S&P500)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R3000V 3yr Std Dev	Composite Dispersion
2005	2.4%	(0.4%)	4.9%	6.9%	(2.5%)	242	$27,603		N/A	N/A	N/A	0.5%
2006	14.4%	11.3%	15.8%	22.3%	(1.4%)	224	$26,916		N/A	N/A	N/A	0.6%
2007	4.6%	1.8%	5.5%	(1.0%)	(0.9%)	220	$27,835		6.9%	7.7%	8.3%	0.7%
2008	(26.9%)	(28.9%)	(37.0%)	(36.2%)	10.1%	19	$1,778	$291,644	13.9%	15.1%	15.5%	N/A
2009	26.8%	23.0%	26.5%	19.8%	0.3%	33	$11,558	$533,832	18.6%	19.6%	21.3%	2.8%
2010	9.7%	6.4%	15.1%	16.3%	(5.4%)	41	$13,980	$751,909	21.0%	21.9%	23.5%	0.5%
2011	3.6%	0.5%	2.1%	(0.1%)	1.5%	40	$14,294	$937,487	18.4%	18.7%	21.0%	0.6%
2012	18.0%	14.5%	16.0%	17.6%	2.0%	40	$11,654	$1,272,265	14.6%	15.1%	15.8%	0.3%
2013	35.3%	31.3%	32.4%	32.7%	2.9%	73	$22,893	$1,955,915	11.2%	11.9%	12.9%	0.7%
2014	14.7%	11.3%	13.7%	12.7%	1.0%	119	$34,036	$2,589,024	8.8%	9.0%	9.4%	0.4%
2015	0.1%	(2.9%)	1.4%	(4.1%)	(1.3%)	207	$50,568	$3,175,419	10.0%	10.5%	10.7%	0.6%
2016	14.2%	10.8%	12.0%	18.4%	2.2%	345	$91,109	$4,413,659	9.7%	10.6%	11.0%	0.6%
2017	15.7%	12.3%	21.8%	13.2%	(6.1%)	649	$167,342	$5,944,479	8.7%	9.9%	10.3%	1.1%
2018	(5.2%)	(8.0%)	(4.4%)	(8.6%)	(0.8%)	689	$168,742	$5,486,737	10.1%	10.8%	11.1%	0.6%
2019	35.6%	31.6%	31.5%	26.2%	4.2%	818	$262,167	$7,044,708	11.7%	11.9%	12.0%	1.1%
2020	17.3%	13.8%	18.4%	2.9%	(1.1%)	953	$333,804	$6,889,798	18.5%	18.5%	20.0%	0.9%
2021	23.4%	19.7%	28.7%	25.3%	(5.3%)	1,084	$422,786	$7,761,687	17.5%	17.2%	19.3%	0.6%
2022	(16.2%)	(18.7%)	(18.1%)	(8.0%)	2.0%	1,065	$342,473	$6,931,635	20.5%	20.9%	21.5%	0.7%
2023	18.8%	15.3%	26.3%	11.6%	(7.5%)	1,046	$385,449	$7,200,019	16.9%	17.3%	16.7%	0.7%
2024	14.3%	10.9%	25.0%	14.0%	(10.7%)	1,047	$412,337	$7,280,773	17.0%	17.2%	16.9%	0.5%

**Average annualized returns* ***Inception is 1/1/2005* *See performance disclosures on last page.*

Portfolio Benchmarks

S&P 500® Index – A capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell 3000® Value Index – A capitalization-weighted index designed to measure performance of those Russell 3000® Index companies with lower price-to-book ratios and lower forecasted growth values. *(Source: Bloomberg)*

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For more information contact a member of our sales team: (314) 530-6729 or sales@confluenceim.com

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Indexes: The S&P 500 and Russell 3000 Value are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only & do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

[1] **Contribution—**Contribution data shown from a sample account, based on individual stock performance and portfolio weighting. Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers (net), based on each holding's contribution to the sample account for the period stated. Holdings identified do not represent all of the securities purchased, sold or recommended. Individual client portfolios in the strategy may differ, sometimes significantly, from these listings.

[2] **Performance Composite Returns—Confluence Investment Management LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2024. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.**

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The All Cap Value Strategy was incepted on January 1, 2005, and the current All Cap Value Composite was created on August 1, 2008. Performance presented prior to August 1, 2008, occurred while the Portfolio Management Team was affiliated with a prior firm and the Portfolio Management Team members were the primary individuals responsible for selecting the securities to buy and sell. Confluence Investment Management LLC is an independent registered investment adviser. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The US Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

[3] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

[4] Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly (2.75% prior to 7/1/08). This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite is as follows: 0.60% on the first $500,000; 0.55% on the next $500,000; and 0.50% over $1,000,000. There are no incentive fees. Clients pay an all-inclusive fee based on a percentage of assets under management. The collection of fees produces a compounding effect on the total rate of return net of fees. Bundled fee accounts make up 100% of the composite for all periods. Actual investment advisory fees incurred by clients may vary. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor.

A complete list of composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The annual composite dispersion is an equal-weighted standard deviation, using gross-of-fee returns, calculated for the accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. The All Cap Value Composite contains fully discretionary All Cap Value wrap accounts. All Cap Value is a value-based, bottom-up portfolio that utilizes stocks from all market capitalizations.

N/A-Composite Dispersion: Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. N/A-3yr Std Dev: Composite does not have 3 years of monthly performance history.